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SUBJECT: SIERRA LEONE DIAMOND EXPORTS DOWN FROM 2005

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¶1. The most recent GoSL statistics show diamond exports down from last year despite early 2006 forecasts of an 8.5% increase for the full year. January to June 2006 diamond export value has fallen 12.23% from the same period in 2005. This decline in export value is partially explained by a drop in average price per carat to \$214.90 in 2006, down 2.06% from 2005. Total exports are down about 10% to 312,342 carats, compared to the first half of 2005. Exports of alluvial diamonds are down over 10% while kimberlite exports are down 6%.

¶2. Comment: The diamond and mining sector presents a mixed outlook. The drop in export income is a concern for the GoSL as historically diamond exports have accounted for 70 percent of Sierra Leone's export and hard currency earnings. With Sierra Rutile and its associated bauxite mining swinging into full production and other mineral projects moving forward, the share of exports accounted for by diamonds will go down sharply in the coming years. The cause of the decline in alluvial exports is unclear, but it is possible that the diamond deposits in alluvial fields are being depleted. A further likely hypothesis is that continued diamond smuggling has contributed to a decrease in official exports, and there also may be fewer diamonds from nearby countries coming into SL to be exported with Sierra Leone Kimberley certificates. If smuggling is up, it is despite the Kimberley process being well administered by the GoSL (per the Kimberley visit last year) and despite reforms aimed at regularizing the alluvial diamond sector funded by the U.S. and other donors. Local and international companies, including some US concerns, have mechanized their working of the alluvial gravels along rivers. That will process more ground faster and presents the prospect of increased overall production, as long as there are diamonds to be found, as there may well be. However, some of these ventures have failed as operators were short on capital and seemed to be looking for a quicker return than was realistic. The down side is that as the trend toward greater capitalization of alluvial diamond mining continues more low-skilled pick-and-shovel operators will be displaced, further increasing youth unemployment. Despite uncertainty in alluvial production, in the medium and long term increased output from existing and new Kimberlite diamond mines will buoy national output and important export earnings. End Comment.

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